

## LIGHTSECOND EXCHANGE BUSINESS SUMMARY

### OUR VISION

To build and operate the world's fastest, most efficient and transparent electronic exchange for liquid interest rate and credit default swaps.

### OUR SOLUTION

A proprietary platform that merges intellectual property from cloud computing, parallel supercomputing, and real-time controls to achieve:

- Consistent sub-millisecond latency in matching buys and sells;
- Flexibility to allow changes to the Exchange (and its tradable contracts) in seconds without disruption to operations;
- Innovations in low latency, large scale data management and visualization to solve very specific problems in the swap markets (to include credit limit monitoring, multi-modal margin calculations, near real-time account allocation); and
- Real time trading tools and analytics.

### WHY NOW

New regulations impose conditions that will encourage swaps to be traded electronically. We believe electronic trades will represent a steadily increasing share of transactions for the following reasons:

*Disruptive Market Change.* Dodd-Frank, the Volcker Rule, and new Basel III capital requirements will drive most of the \$500 trillion in "over the counter" interest rate and credit default swaps to electronic trading venues and central clearinghouses. "Voice trading" will become obsolete, with the notable exception of large "block" trades and specially tailored "bespoke" swaps. New regulations around capital and trading will materially raise transaction costs, making exchange traded products economically attractive.

*Open Access.* As liquid swap benchmarks and indices move to electronic venues, proprietary trading groups (PTG) will enter the derivative markets with the same technical capabilities, innovative trading strategies, and volumes that PTGs have brought to the equity, exchange traded option, energy and FX markets. Primary dealers will see their dominant market position challenged, forcing the banks to develop new business models that target higher volume

“algorithmic” trading, clearing services, and execution brokerage. Second-tier dealers that are less well capitalized and/or have no legacy voice business to protect will be able to compete in a heretofore closed market. Alternative asset managers will have access to new sources of liquidity and trading strategies. And conventional asset managers will enjoy the certainty and protection that their end clients demand.

*Technological Barriers to Entry.* Derivative exchanges are technologically complex and capital intensive; development talent is scarce; and partnerships with key liquidity providers, central counterparties, and trading contract licensors are challenging to build. Most new entrants will opt to develop relatively simple operational pipes to transmit trade details or “request for quote” systems with lower technology requirements to solicit bids/offers from counterparties. Incumbents with derivative exchange aspirations will likely leverage their existing technology – we strongly believe that these legacy platforms, built on 80’s and 90’s-era technologies, are insufficient to address the emerging technical demands.

We believe that market forces will inevitably cause the emergence of several independent electronic exchanges in these markets. Lightsecond intends to be one of them. We will be able to better serve the customers because it will be the exchange that is built on the most advanced and flexible technological foundation.

## **WHY LIGHTSECOND**

Lightsecond is a unique combination of recognized industry leaders in derivatives execution and operations, exchanges/high speed trading, and fast computing. We will leverage concepts from scientific supercomputing and cloud computing to achieve a unique mix of performance, scalability and flexibility that will differentiate us sharply from the competition.

## **THE TEAM**

Samuel Cole (CEO and Co-Founder), former COO of BlueMountain Capital Management, has recognized domain expertise in derivative products, industry infrastructure, regulatory issues, and trading design, as well as relevant relationships across the market.

Applied Minds, LLC (Technology Co-Founder) is recognized as one of the most dynamic and innovative technology firms in the country. Danny Hillis and Dave Douglas are among the world’s leading experts on “fast computing.”

Senior Management Team to include leaders across technology, product design, and regulatory policy. Lightsecond’s Chief Technology Officer has more than 10 years of experience in building high frequency trading platforms. Its Chief Regulatory Officer has global banking leadership experience and is a former senior official at one of the key regulators. Other executives with deep product, infrastructure, banking, and buy-side experience have committed to join Lightsecond.